

Remarks of the Honorable Kathleen B. Cooper
To the Manufacturers Alliance Conference on Business and Policy
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As prepared for delivery.

Manufacturing peaked more than a year ago, at which time I worked for ExxonMobil. Sensing the weakness in our own chemicals business, I began comparing notes with colleagues --chief economists in the chemical industry. The consensus was that this was the worst December they had seen since the early 80s. I heard the same story from colleagues in other industries. The anecdotal evidence then demonstrated that weakness was widespread. As my role then was advising ExxonMobil management, I made it clear that 2001 would be a tough year.

You certainly don't need me to tell you that the manufacturing sector felt this recession sooner and continues to feel it the most intensely of any part of our economy.

Historically, industrial production peaks two months before the peak in the overall economy. This time, it peaked in June 2000 and has declined seven percent since then.

In this very uncertain time, you can be sure the Administration understands the concerns of the manufacturing sector. It will do what it takes to ignite our economy and expand global markets. With the strongest, most technologically advanced, most resilient economy in the world, this downturn will be reversed. Obviously, a recovery in the manufacturing sector is critical.

Last fall, when I called my colleagues from other companies, the forecasts were grim but today our very definition of "grim" has undergone a fundamental shift.

Has anyone been over to the Pentagon or did you see it as you were driving in? (Walk over there at lunch if you can.) You would have to observe the site from a hill by the Navy Annex where flags and flowers were left in tribute and memorial as late as several weeks ago -- before much of the cleanup, when the gash was far more ghastly.

Actually, there is a five-acre courtyard, a park really, in the center of the Pentagon. At the center of the park is a popular snack bar. Apparently, in the midst of the Cold War, Soviet intelligence noticed a great deal activity there and targeted weapons on the supposed super-secret, apparently high-level hot dog stand. Our guys knew they were in the Soviets' sights and dubbed their snack bar the ground zero café. That was a cute bit of lore on September 10, but is now quite chilling.

As you sit here this morning, you are not 1000 yards from ground zero of our uncertainty. The uncertainty of September 11 and each day that follows affects consumers, businesses, and policy makers.

For instance, nonfarm employment fell 415,000 in October and 331,000 in November. Questions of when or if the next paycheck will come are bound to cause uncertainty. Employment data released today demonstrates that manufacturing bears the brunt of the downturn. November saw the loss of 163,000 jobs. Factory employment has fallen by 1 million since March and 1.4 million since July 2000.

In the third quarter, 64 percent of employers expected that they would not recall workers from previous layoffs, the highest proportion since the series started in 1995. Of those employers who did expect to recall workers, only half expected to do so this quarter.

So, it was certainly not a surprise last week when the National Bureau of Economic Research made it official -- reporting that we are in a recession as of March 2001.

But the truth is, before September 11, and despite the troubles in manufacturing, the confident American consumer buoyed this economy for almost a year. Even as we sensed the beginning of a slowdown in late 2000 and into 2001, American consumers refused to yield, providing the strong underpinning to the U.S. economy.

Despite falling equity market values and rising unemployment, consumers kept buying. Automobile sales and housing sales were resilient. But, business managers reacted with caution. As they began to see future sales in less than glowing terms, they cut back capital spending -- first on a general array of equipment and then on high tech hardware and software.

In the past, business investment and the investment component of household spending have tended to show fairly similar patterns of growth over the course of the business cycle.

In most business cycles, the turns in household spending have led business investment. That is, peaks and troughs in household investment spending have taken place before those in business investment. Consumers have tended to be more sensitive to credit conditions than business managers. As a result, households traditionally have responded earlier than businesses to tightening or easing credit conditions near business cycle peaks and troughs. These changing conditions drive and are driven by Federal Reserve policies.

This cycle is different. In the current downturn, business investment weakened much sooner and more significantly than one would expect, given the lack of credit pressures and the favorable trend in household spending. Just as business investment helped drive the previous expansion, business investment has been a prime mover in the current downturn. It has contributed most to the decline in total GDP.

So we can thank American consumers for keeping the economy strong for so long. Today's uncertainty about consumer spending and confidence parallels their uncertainty about airline safety, anthrax, and the security of bridges. The terrorists must have planned for such a reaction, but they could never have conceived of the incredible national unity their dreadful deeds would unleash. But I am hopeful our countrymen will, in time, pull the economy back to acceptable growth as a "new certainty" emerges.

Kathy ad lib on deflation

We will return to acceptable growth by igniting the economy and expanding markets for American-made products.

Decisions about how we re-ignite the economy depend -- to a great extent -- on information that reflects and reports the challenges we face. We need the information that will allow us to develop strategies and fix problems.

One of my surprises in my seven months on the job is just how much information the Department of Commerce and its statistical agencies -- the Census Bureau and the Bureau of Economic Analysis -- produce. I simply had never before tallied their many products -- GDP, housing starts, retail sales, international trade, construction, inventories, the list goes on. These are major indicators needed to diagnose the health and strength of the U.S. economy.

Changes in the way businesses operate have caused us to reevaluate the information we collect and how we collect it. We are committed to improving our data. We are committed to keeping pace with rapid changes in the world around us by using technology to increase accuracy, improve timeliness, and reduce burdens on data suppliers. Moreover, Secretary Evans has taken a personal interest in our need to better measure the new economy and the services sector. Those are two areas we can do a better job of calibrating and obviously two areas that drive our economy.

The data we release, step by step, form a map guiding policy makers, indeed all Americans, through the uncharted economic world in which we find ourselves after September 11. Here is what we have learned in the past two weeks or so from Commerce Department releases -- all measuring the weeks and the first full month after the attack.

Single-family houses sold during October released last week demonstrated that the housing market is an unusually stable part of the economy owing to the easing of credit throughout the year. The effect of policy -- monetary policy -- shapes and is shaped by such indicators.

While durable goods took a hit in September, the October data that we just released shows considerable bounceback. Undeniably, the attacks had a large effect. But we are seeing notable resilience due to several factors: the zero percent financing in the automotive sector, postponed purchases from September, reduced inventories, and the sense that consumers do want to live their lives even understanding the changed circumstances. These data show decision makers where the economy is weak and where help is needed.

International trade data, released November 20, demonstrated the short-run influence of September 11 and the longer-run effect of global economic weakness. For the first time since 1974, the worlds' three largest economies, the U.S., Germany, and Japan are all declining at the same time. This widespread slowdown has resulted in significant declines in U.S. exports and imports over the last 12 months.

These numbers demonstrate the interdependence of the world and U.S. economies. Imports and exports are down relative to a year ago, consistent with sluggish growth here and abroad. Moreover, the information highlights the importance of House passage yesterday of Trade Promotion Authority.

President Bush views trade as a core principle upon which both economic and international policy can be based. Consequently, the Administration has made Trade Promotion Authority a priority. President Bush's ability to negotiate trade pacts will enlarge the sphere in which market

economies are allowed to operate for the benefit of people everywhere, but particularly for the benefit of American workers, manufacturers, and entrepreneurs.

Even before September 11, our national security and our economic security were linked. Symbolically and practically, the near simultaneous attacks to our financial and defense centers demonstrate that there can be no strong American world leadership without strong leadership on the financial stage. America is the leader of the free world and the leader of free markets.

The nexus between economics and international relations is well founded. Today, just as in the century past, economic ideas went hand in hand with foreign policy goals -- World War II, the Marshall Plan, the Cold War.

Sixty years ago, we worried about conflicts between France, Germany, and the U.K. Now, while neighborly rivalries exist, it is unlikely that war will erupt among these nations whose economies are linked so extensively.

Today, we worry about conflicts in the rugged geography of Central and South Asia and the Middle East, between people who taught the ancient world a great deal about trade. But where trade is now held hostage to politics. After all, this is the land of bazaars and the Silk Road.

The U.S. benefits from a more peaceful, more prosperous world. As trade develops between other countries, their citizens' incomes rise and they can afford more of the items that our manufacturers excel at making.

Notwithstanding some divisions in Congress that had bottled up trade promotion authority and a few other issues, our country is more united than at any time I can remember. President Bush deserves much of the credit for leading and nurturing that unity. And he needs continued unity to effectively deal with terrorism and the economy.

On September 14 at the National Cathedral the President said, "you will be asked for your patience; for the conflict will not be short. You will be asked for resolve; for the conflict will not be easy."

That day amid the tears, perhaps it seemed that he was speaking only of the conflict with the terrorists. But peace *and* prosperity were attacked. Lives *and* livelihoods were destroyed. I believe he was speaking of our battle for national security *and* economic security.

National security battles are seen on TV. The economic battles are more subtle, but we feel them. Airport lines at security checkpoints are one small measure of a false sense of invulnerability lost. This cost is counted in fewer travelers and the dollars they carry with them. We sense the echo of empty factories filled for now with shadows of shaken confidence.

In much the same way President Bush has approached the military side of the battle, he developed a strategy and he is leading the charge on the home front. He understands these are tough times and more will follow.

The President immediately called for \$40 billion in emergency funding to help the victims, for search and rescue efforts, for the investigation, for airport security and sky marshals, and as a down payment on his commitment to restore the Pentagon and rebuild New York.

The President championed a \$15 billion package for the airline industry, which because of government action was shut down temporarily and sidelined for a week. And before Thanksgiving, President Bush signed airport security legislation.

He has put forward a backstop proposal to make certain that insurance will be available for business activities and operations, so that sensible projects will be forward, airplanes will fly, companies can afford to operate, and the business of America will go forward.

All of this spending -- more than \$55 billion -- is not without a positive economic effect. And the President has called for an additional \$60 - \$75 billion in stimulus that would:

- Reduce taxes for low- and moderate-income households beyond relief already approved by Congress,
- Accelerate the tax cuts passed in the spring,
- Allow business to partially expense capital expenditures, allowing them to make purchases they might not otherwise have been able to afford,
- Promote new investment by businesses by eliminating the corporate alternative minimum tax,
- Extend unemployment benefits by 13 weeks for Americans who lost their jobs as a direct result of the terrorist attacks,
- Make \$11 billion available to states to help low-income workers obtain health insurance,
- Provide \$3 billion in special National Emergency Grants to help displaced workers maintain health coverage, supplement their income and receive job training,
- Encourage affected workers to take advantage of more than \$6 billion in existing federal job search, training and placement programs.

The American people -- consumers, entrepreneurs, workers, and employers -- are on the front lines of the economic battle. The President understands this and wants to know more. Upon his request, Commerce Secretary Evans and the President's economic team have begun to convene a series of economic roundtables across America. The roundtables include industry leaders, workers, and economists and provide a chance to listen and learn. The first was in Chicago with retailers.

The next will be in Columbus, Ohio highlighting manufacturing.

This Administration is moving forward with the understanding that declining output in the fourth quarter will likely follow the decline registered in the third. This Administration is moving forward with the understanding that unemployment is on the rise. This Administration believes both are intolerable and stands ready to employ a strategy to stabilize and strengthen this economy.

Much depends on our citizen soldiers -- their confidence and their job prospects. Many of the factors that made an upturn seem possible on September 10 -- low inflation, low interest rates, and declining inventories and energy prices -- are still in play and provide encouraging signs.

Fiscal stimulus actually began before the attack. The tax rebates and adjusted withholding pushed tax-adjusted incomes up at a 12 percent pace in the third quarter.

As you well know, some corporate stimulus is needed. It is hoped that the stimulus package that eventually emerges from Congress coupled with emergency stimulus and the airline recovery and security measures will provide the right boost.

We can't say precisely when the war on terrorism will be won. But does anyone in this room doubt that we will win? We have the strongest, most technologically advanced, most resilient military in the world and we will prevail on the national security front.

We can't say precisely when an economic turnaround will come. But no one should doubt that it will come. We have the strongest, most technologically advanced, most resilient economy in the world and we will prevail on the economic front.